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(19)



6 January 1966

OCI No. 0753/66
Copy No.

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INTELLIGENCE MEMORANDUM**SOUTH VIETNAM IN 1965:
NON-MILITARY ASPECTS****DIRECTORATE OF INTELLIGENCE**
Office of Current Intelligence

State Dept. review completed

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CENTRAL INTELLIGENCE AGENCY
Office of Current Intelligence
6 January 1966

INTELLIGENCE MEMORANDUM

South Vietnam in 1965: Non-Military Aspects

Political Dynamics

1. South Vietnam, under the rule of a ten-man military Directorate, for almost seven months has experienced greater political stability than at any time since early 1963. However, the political rivalries and conflicts within the Vietnamese social fabric have not been resolved nor eliminated. Rather, the absence of serious political turmoil appears in large part a result of the assumption of authority by the one element currently strong enough to wield it--the leaders of the armed forces. Additionally, political improvement is the result of the more concrete US military and political commitment of the past year, which has checked the previous prospect of accelerating internal collapse and Communist takeover.

2. The two civilian governments which fell during 1965--that of Premier Tran Van Huong and that of Premier Phan Huy Quat--were essentially vested with power by the military and were removed by the military when political chaos threatened. The military, after voiding the civilian base of Huong's regime--the High National Council--in December 1964, withdrew Huong's mandate in January when Buddhist attacks on the premier threatened renewed religious and civil disorders. They intervened to remove Quat when his government coalition of politicians foundered on political intrigue, openly abetted by militant Catholics and southern regionalists.

3. The present military regime's surface display of unity to date is largely the result of a diffusion of real power among four or five generals. None of these key generals--Chief of State Nguyen Van Thieu,

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Premier Nguyen Cao Ky, Deputy Premier and Defense Minister Nguyen Huu Co, I Corps Commander Nguyen Chanh Thi, and, potentially, Directorate Secretary-General Pham Xuan Chieu--seems so far to have sufficient personal strength or motive to upset the balance.

4. This alliance among senior officers, however, clearly remains tenuous. General Thi, ostensibly in collaboration with National Police Director Pham Van Lieu, is known to be politically ambitious. General Thieu, subject to some political restraint because of Buddhist suspicions that he was associated with recent Dai Viet-Catholic-military coup attempts, may nevertheless exert increasing influence behind the scenes.

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[REDACTED] Premier Ky is a target of increasing criticism from within the military, including some of his close associates, for alleged failures in the premiership, including charges of laziness and procrastination.

5. These strains among the ruling generals have resulted, in recent weeks, in renewed rumors of coup plotting.

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[REDACTED] It is generally felt by US officials in Saigon that Ky would step down if so requested by a consensus of the Directorate, but he shows no obvious signs of discouragement so far and voices no concern over the possibility of a coup attempt.

6. The Ky government has been notably unsuccessful so far in developing any significant popular enthusiasm or positive political support. Ky shows a considerable grasp of the country's problems in general, but his government has so far accomplished little in the way of carrying out its ambitious programs of political, social, and economic reform, and it has not brought increased security or government presence to any significant new portion of the rural population. On the other hand, conditions have not deteriorated. Ky has demonstrated considerable adroitness in balancing

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the competing pressures from Buddhists and Catholics, as well as from various political factions. Both the Buddhists and the Catholics have registered their essential displeasure with the military regime, but Ky has so far avoided giving either group a popular issue with which to challenge the government or divide the military. Civilian groups for the present appear reluctant to rock the boat without adequate power to assure the outcome. However, a greater test of the government may come as the war intensifies and demands on it increase, particularly in the economic and pacification fields.

7. Already, the government is under growing pressure from religious and political groups to broaden the area of civilian participation and to provide some legal framework toward the eventual restoration of civilian control. Although some generals, particularly Ky, are reluctant to open up any official channel for disruptive civilian tactics, the Directorate intends to establish early this year a council with some advisory authority. The advisory council will be tasked with drafting a permanent constitution.

8. The advisory council, under the tutelage of General Chieu, is expected to have about 60 members, probably politicians and professional men rather than religious figures, but there are already suggestions of civilian reluctance to participate. Buddhist leader Tri Quang has already expressed dissatisfaction with the Directorate's council formula, arguing that postponement of a draft constitution until some form of election can be held is preferable to a hand-picked council responsive only to the military. Government officials have indicated that the security situation precludes any prospect of genuinely representative elections before late 1967.

9. General Chieu has also indicated [redacted] [redacted] that some form of national political "front" is needed to give the government a popular base, and provide a stimulus for eventual development of a two- or three-party system. His soundings so far among existing political parties appear to have failed to budge Vietnamese politicians from their traditional fence-sitting, and such efforts apparently have been shelved for the present.

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10. Although US Embassy surveys have so far uncovered little adverse popular reaction to the US military role--including airstrikes--in intensifying the war, the Embassy has reported considerable public apprehension over growing civilian casualties. There is some danger that prolonged and more intensive fighting will generate resentment against the US or the Saigon government, and pressure for peace-at-any-price by pacifistic elements such as the Buddhists. Currently, Saigon's ruling generals continue to express opposition to any negotiations under conditions of near-stalemate, or to any settlement in which the South Vietnamese would be forced to compete politically with the Viet Cong.

Inflation

11. The economy of South Vietnam operated under considerable inflationary pressure during 1965, and this pressure is expected to intensify during 1966. A large deficit in the GVN budget, the increase in US forces, and the increase of local spending for military and civilian construction placed new demands on the economy during 1965. Supply problems were exacerbated by port bottlenecks, Viet Cong interdiction of transportation routes, and a shortage of labor. The resulting imbalance between demand and supply generated price rises of at least 35 to 40 percent in Saigon and in areas where Viet Cong activity and the US force buildup was intensified.

12. During 1966, the GVN budget deficit could rise from the 15-18 billion piasters estimated for 1965 to 20 billion piasters or more. US and other foreign troop spending and local purchases for construction may jump from about 10 billion piasters in 1965 to an estimated 30 billion piasters in 1966. The total of 50-55 billion piasters for budget deficit and foreign spending (compared to about 29 billion piasters in 1965) is equivalent to about one-third of all goods and services available in Vietnam in 1965 and is substantially more than the present money supply of 42 billion piasters. Since these inflationary pressures will be working against a far smaller stock of idle resources in the economy, their impact will be more severe and more difficult to contain than during 1965.

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13. The major factor restraining inflation has been the supply of AID-financed commercial imports and PL-480 commodities. For example, a mid-1965 shortage of rice was successfully overcome by rice imports largely supplied or financed by the US. During 1966 US-financed imports of rice and other commodities are expected to increase substantially to relieve the burden on domestic supplies and to meet the anticipated demand. Inadequate port and transport facilities created serious bottlenecks during 1965, and there is a constant danger that these facilities will be unable to handle the volume of imports essential to the maintenance of a measure of economic stability during 1966.

14. A second factor restraining inflation in the past has been the willingness of the Vietnamese to hold a part of additional income in the form of money. During 1965, there was some evidence that price rises have begun to discourage money holdings, and to increase the demand for goods. This trend poses an added threat during 1966.

15. Shortages of construction materials and luxury items resulted in sharp price increases during 1965, and specific material resources will continue to be in short supply during 1966. For example, in the past three months, gravel prices have doubled; the price of sand has doubled during the last year; brick prices are up 75 percent; and lumber prices have also increased substantially. In general, any increase in demand for construction materials brings about an immediate and pronounced response in price with only a belated and small response in quantity. Prices of luxury consumer goods and the more expensive food items are expected to continue their sharp increases as the result of local spending by US and other foreign personnel. These items include meat, seafood, fresh vegetables, beer, cigarettes, and high-priced textiles. In contrast, the prices of rice, fish sauce, and low-priced textiles, which are basic necessities for the poorer elements of the Vietnamese population, have maintained relative price stability; this trend is expected to continue during 1966.

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16. Anticipated increases in 1966 US expenditures for construction in Vietnam will have additional repercussions in the manpower sector of the economy. Wage rates for most categories of skilled construction workers have doubled during the last year. Wages for unskilled labor have not increased as sharply but are estimated to have increased by at least 50 percent in Saigon. With the exception of rural labor in isolated areas, Vietnamese manpower resources are now fully employed.

17. Control of the inflationary threat to economic (and hence political) stability during 1966 is clearly dependent on US and GVN countermeasures. For example, the US could meet the bulk of the requirements for skilled labor and critical commodities needed to expand port facilities and for military construction, from sources outside of South Vietnam. Additional measures to control in-country spending by foreign personnel are possible. Similarly, new GVN fiscal measures, such as increased taxes, are under consideration to soak up excess purchasing power. But even under the best of circumstances, the problem is to limit inflation to manageable levels in 1966, not to aim for price stability.

Land Reform

18. The Ky government is giving renewed emphasis to the land reform program begun under the Diem regime in 1955, and is making limited progress. The present program is still plagued by the dissatisfaction of expropriated landlords, numbering only about 2,000, and their political backers. The major obstacles to a psychologically and politically productive program, however, continue to be the lack of security in the countryside, which inhibits the work of surveyors and investigators, the slow trickle of funds from Saigon to the provinces, and a shortage of manpower resulting from the stepped-up military draft.

19. Although land reform efforts have tended to bog down during the course of the program's ten-year existence, some 457,000 hectares of rice-land were expropriated from landowners--usually absentee, and 248,000 hectares were distributed to about 116,000 new owners. Under the initial program, these new owners received provisional titles, while making

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payments for the land over a maximum period of six years. Most of these payments have been delinquent, with only about 26 percent of the total amount due yet paid up.

20. Under the new government policy, permanent titles are being granted to farmers who purchased land under the old ordinance, and the period of payment has been extended to 12 years. Additionally, former French lands, totaling 225,000 hectares, are being subdivided and sold to the farmers who till them. State-owned lands, totaling some 300,000 hectares, are also to be distributed to 180,000 farmers now occupying them as squatters. Changes have been made in the terms governing rental of farm lands, with all leases being extended to five-year contracts, and collection of back rentals has been eliminated in newly secured areas. Finally, competitive bidding for the rental of communal land--a procedure devised by the Diem regime to raise national and local taxes--has been eliminated, but new procedures for making this land available to landless farmers have not yet been worked out.

21. In view of the security problem, it appears that land reform work can presently be carried out with only about 50 percent of the desired efficiency. A considerable portion of the former French land is now in Viet Cong-controlled areas or is now unsuitable for cultivation. In many areas, payments are still lagging despite more lenient terms. Information available on government land occupied by squatters is still incomplete. In addition, the government has not yet effectively attacked such problems as rural credit, marketing, and enforcement of rental contracts, all integral parts of any successful agrarian program.

22. The General Directorate of Land Affairs, which administers the agrarian reform program under the ministry of agriculture, has a considerable degree of technical competence in its three sub-directorates--cadastry, land registration and legislation, and land reform. However, many of the Directorate's technicians have been drafted, and, although training has just begun for 130 new surveyors, an increase of personnel is needed. The proposed South Vietnamese

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budget for 1966 provides support for such activities as mapping, land registration and surveying, but the Director of Land Reform anticipates trouble getting funds for the full program through regular governmental channels.

23. The recent changes in the land reform program are designed as short-term measures. A long-term program contemplates reduced retention of land by landlords, further extension of tenancy contracts, and further distribution of public land. A major unresolved problem is that of conflicting ownership rights resulting from land distribution activities by the Viet Minh during the Indochina War and by the Viet Cong more recently in areas under their control. The problem is under study, but the government program, with its provisions for farmer payments for the purchase of expropriated land and its collection of land rentals, has long been at some disadvantage vis-a-vis the Viet Cong program. Increasingly harsh Viet Cong taxation policies of the past two years, and increased Communist requisition of rice from the peasants, will probably help the government in this problem area.

The Refugee Problem

24. The refugee problem in South Vietnam has expanded to tremendous proportions during the past year, particularly since July. At latest report, a cumulative total of 745,800 persons has been processed by the government. More than half of the present refugee population--463,000--is still living in temporary refugee shelter areas at what is little more than a subsistence level of existence.

25. The large influx of refugees has been caused by a combination of circumstances: natural disaster, a decline in security which has resulted in mass movement of people to safer areas, and the increased level of large-scale friendly operations. At the present time over ninety percent of the current refugee population is concentrated in the coastal lowlands area of I, II, and III Corps zones and is a serious strain on the refugee relief machinery.

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26. Although the refugee situation remains serious, it has not reached the proportions by the end of 1965 that GVN and US officials had anticipated. However, most of the effort that would have been devoted to pacifying and developing the countryside has had to be diverted to care for refugees. This situation will prevail until refugees can either be relocated to permanent settlements or returned to their home areas. Moreover, the large refugee population remaining in temporary shelters is a fertile ground for the Viet Cong to sow discord. It may be expected that the refugee problem will intensify if the tempo of military operations, particularly in the central coastal lowlands, continues to increase.

Pacification

27. Pacification on a nationwide basis made very little tangible progress during the past year. The pacification program in the Hop Tac area around Saigon, which was fairly active until May 1965, was one exception. Over-all, however, much of the military manpower necessary to provide security as well as to clear areas in the initial phases of pacification operations was diverted to replace battle losses inflicted by the stepped up pace of Viet Cong military action. Moreover, assets devoted to pacification have been largely diverted to handling the large flow of refugees.

28. With the general deterioration of the security situation in many parts of I, II, and III Corps, pacification has largely been confined to areas immediately adjacent to centers of government control, such as major urban areas and provincial or district capitals. At best, pacification efforts in these three Corps areas can only be termed minimal. In the IV Corps area, government control expanded somewhat. In this region, however, the Viet Cong still control large amounts of territory which have not experienced any government influence or presence for several years.

29. The pacification effort has also suffered from the successive changes of government that occurred

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in 1965. Varying approaches by each of the new governments caused the pacification machinery to operate erratically and ineffectively. The present government also has instituted its own changes of programs and priorities. However, Prime Minister Ky has from the beginning recognized the importance of the pacification program, and has taken a direct hand. He has named a capable officer, General Nguyen Duc Thang, to head the program as Minister of Rural Construction.

30. So far, the advances of the present government have been difficult to measure. However, plans have been made and initiated which could have a beneficial effect on the pacification effort. The new government has decided to institute three high priority programs which will point the way for a greater over-all effort in years to come. These areas are the Qui Nhon area of Binh Dinh Province, Quang Nam Province, and a showcase area near Saigon--located in the now dormant Hop Tac area.

31. Other planned improvements in the pacification effort include reorganization to effect more direct civilian control down to the province level, and the reorganization and consolidation of the various cadres now in existence into a single national pacification cadre corps. It is visualized that pacification units will be created around the core of the People's Action Team. They will, in theory, be balanced to operate independently in their areas of responsibility. The cadre program will be under another highly regarded officer, Colonel Tran Ngoc Chau.

32. The thoughts of the present government regarding pacification are in many respects still in the formulative stage, and it remains to be seen whether they can be translated into effective action. Some laudable steps have been taken to get the 1966 program underway on time, but many problems remain to be solved before an effective pacification program can be effected.

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The Chieu Hoi Program

33. The South Vietnamese Chieu Hoi program is designed to entice away from the Viet Cong both military and civilian followers. The program, which is currently administered by the Ministry of Psychological Warfare, has enjoyed a substantial amount of success during the past year despite the shunting about of the administrative responsibility for the conduct of this important program.

34. During 1965, according to government reports, a total of 42,552 persons returned to the government side. Although the majority were civilians, there were a total of 10,391 military personnel who also "rallied" to the government cause. In 1964, there was a total of 14,465 returnees, of whom only 1,903 were military defectors.

35. The Chieu Hoi program has shown signs of improvement in techniques of exploitation and programming in the past several months with several significant and successful psychological warfare operations being mounted against the Viet Cong. This has been especially true in rapid follow-up action to ground operations. However, the program still has several glaring weaknesses, especially in processing and providing for the Chieu Hoi returnee. Crowded returnee centers, a shortage of administrative personnel, and a lack of facilities to rehabilitate the returnee have hampered the total effectiveness of the effort. Some first steps have been taken by the government to correct these inadequacies, but much work remains to be done.

The Montagnards

36. Although an uprising by dissident tribesmen in the central highlands area in mid-December was promptly quashed, there is little prospect of an early resolution of the problem of tribal unrest and loyalty. Mutual antipathy and distrust between

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ethnic Vietnamese and the approximately 500,000 ethnic Malayan tribesmen inhabiting the highlands has deep historic roots.

37. FULRO, the tribal autonomy movement which developed from a revolt in several government Special Forces camps in September 1964, has been estimated to have only a few understrength battalions. FULRO has apparently received sanctuary, but little concrete support, from Cambodia. During the past year, while FULRO leaders issued vain appeals for foreign support and then, in late summer, actively engaged in negotiations toward a reconciliation with the government, FULRO troops apparently conducted a proselytizing effort among the government's paramilitary units and the montagnard tribes. FULRO appears to have had considerable success in drawing new sympathy and support from the Jarai tribe as well as the originally affected Rhade tribe.

38. FULRO's appeal among the montagnards is due not only to long-standing tribal aspirations for autonomy and preservation of tribal customs, but to a series of grievances with the Vietnamese governments of the past 10 years. These grievances range from ethnic Vietnamese encroachment on their communal lands during the Diem regime, to lack of fulfillment by Diem's successors of promises of increased aid and political representation in Saigon. Although the current Saigon officials apparently plan to deal leniently with most of the rank-and-file FULRO sympathizers, the execution of four FULRO leaders, and the sentencing of about 30 others, have probably stirred new tribal resentment and anticipation of harsh government treatment. There is evidence that montagnard leaders previously supporting the government are increasingly sympathetic to FULRO.

39. There is no evidence to date that FULRO leader Y-Bham Enoul or his top lieutenants are cooperating with the Viet Cong. On the contrary, [redacted] propaganda attacks, and a few minor clashes, have occurred between FULRO and the Communists, who have long sponsored their own tribal autonomy movement. [redacted]

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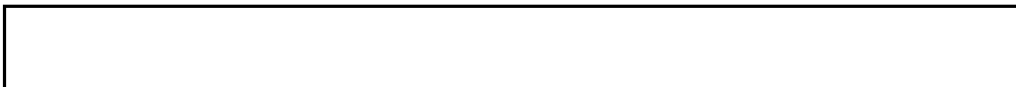
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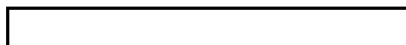
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40. At the present time, even a renewed government determination to carry out reforms and aid programs for the montagnards seems likely to have little prospect of banishing tribal suspicions--or Vietnamese snobbery--in the early future. The reliability and effectiveness of the numerous tribal paramilitary units will thus probably remain uncertain for the next year or so, and the opportunities for the Viet Cong to exploit the situation, or to win increasing cooperation from the tribes, may be enhanced.

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OFFICE OF CURRENT INTELLIGENCE

MEMO NO.: **OCI No. 0753/66**

SUBJECT: **SOUTH VIETNAM IN 1965: NON-MILITARY ASPECTS**

REQUESTED OR ORIGINATED BY: **Requested by White House
Staff**

DISSEMINATION: **ROUTINE - White House, USIB, External,
Internal**

ADDITIONAL COMMENTS: **- 5 copies sent by 6:00 AM Courier
to White House, Attention:
Mr. Roper^a**

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3 January 1966

MEMORANDUM FOR: OCI

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SUBJECT : Ropa Request for Vietnam Paper

1. This confirms our conversation earlier today.

2. The White House (D. Ropa) has requested a paper this week on non-military aspects of the S. Vietnam situation, a survey of where we stand and where we are heading, looking back in general over 1965 and looking at directional trends as we enter 1966. The paper is due to Ropa (who said a package is to be forwarded upward on Thursday) by COB on Wednesday, 5 January; hence copies (at least five) should be in O/DDI for forwarding as early as possible on Thursday, and in any event before 1700 on Thursday. *Wed*

3. Ropa said the survey need not be exhaustive, but should be fairly comprehensive in coverage and outlook. As for length and specific subjects, he suggested about one page each (some subjects might warrant more than a page) on the following:

- a. Pacification effort
- b. Internal political dynamics (how the situation looks internally; military rivalries and what they mean; stability; advisory council plans; etc.)
- c. Inflation problem
- d. Montagnard problem
- e. Land reform
- f. ~~Chieu~~ Hoi program
- g. Refugee situation

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Assistant to the
Deputy Director for Intelligence

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